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SUBJECT: AMBASSADOR'S MEETING WITH PETROLEUM AND NATURAL  
GAS MINISTER AIYAR

REF: A. NEW DELHI 4490  
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Classified By: Ambassador David C. Mulford, Reasons 1.4 b,d

[1](#). (C) Summary: The Ambassador told Indian Petroleum and Natural Gas Minister Mani Shankar Aiyar on June 17 that there appears to be an unprecedented level of optimism about the US-India relationship in the USG leadership. In this context, the Ambassador said, we have revitalized the Economic Dialogue and have constituted a high level CEO Forum, and launched the Energy Dialogue. Aiyar pledged to direct his Ministry to cooperate fully with us in Oil and Gas Working Group of the Energy Dialogue. Aiyar said he went to Saudi Arabia in March to cement a relationship with the country which supplies 26 percent of India's oil imports. Turning to Iran, Ambassador noted that our concerns about the India-Iran energy relationship are well known to Aiyar and the GOI. He urged Aiyar not to interpret our concerns as hostility to India's quest for energy security. The Ambassador drew attention to Secretary Rice's statement the day before to a reporter that "... we are sharing our concerns in a constructive way ... not in a negative way." Aiyar was appreciative of the frank and measured U.S. approach with India on energy ties with Iran.

[2](#). (C) Aiyar provided an extensive readout of his Islamabad visit, which he described as very useful with forward movement on the proposed Iran-Pakistan-India pipeline. He also provided a shorter read-out of the Teheran visit. Aiyar once again impressed us with his ability to think strategically while maintaining a sure grasp of the details. India is currently engaged in a broad, multi-faceted effort to secure its energy future. The Iran-Pakistan-India pipeline is only one piece of a much bigger quest. It would not be appropriate, therefore, to view the Indian drive for energy supplies solely through the prism of the Iran-Pakistan-India pipeline. Similarly, we have a broad multi-dimensional relationship with India. There is a propensity in the media and occasionally among officials to dramatize the Iran-Pakistan-India pipeline and portray it as central to our relationship with India. Such media coverage conveys the impression that a confrontation between the United States and India over the pipeline is inevitable and imminent. Such portrayals are dangerous and damaging. Secretary Rice's June 16 statement on India-Iran energy ties

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conveys perfectly the substance and tone of what we should be saying. This needs to be our consistent message. End Summary.

Unprecedented Optimism  
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[3](#). (C) On June 17, The Ambassador briefed Indian Petroleum and Natural Gas Minister Mani Shankar Aiyar on the Economic Dialogue, the CEO Forum and the Energy Dialogue. The Ambassador referred to his recent visit to Washington where he found an unprecedented level of optimism about the US-India relationship among USG leadership and a high level of interest in India. The growing importance of India to the United States has become part of the policy deliberations in Washington, he told Aiyar. The exchange of high level

visitors, including the July State visit of Prime Minister Manmohan Singh and the proposed visit of President Bush to India later this year or early next year is a reflection of the priority that the United States accords its relationship with India.

14. (C) The challenge for both governments, the Ambassador continued, is to ensure that policies and programs are implemented that take the relationship where we want it to go. The USG is working hard to identify and develop the road map that will help us achieve President Bush's goal of supporting India's ambition to become a major global power. In this context, the Ambassador said, we have revitalized the Economic Dialogue and have constituted a high level CEO Forum, which will convene soon with the objective of giving the private sector in both countries the means to identify and influence ways in which are economic and commercial relationship can become more binding.

#### The Energy Dialogue

15. (C) The Energy Dialogue, launched in Washington recently by Energy Secretary Bodman and Deputy Planning Commission Chairman Ahluwalia is an important part of the broader US-India engagement. The Ambassador described the five working groups in the Energy Dialogue and noted that Aiyar's Ministry is the designated leader of the Oil and Gas Working Group (WG). Handing Aiyar the proposed U.S. terms of reference for the Energy Dialogue, the Ambassador urged Aiyar to ensure that his Ministry participates actively with a view to identifying deliverables prior to Prime Minister Singh's visit in July.

16. (C) Aiyar pledged to direct his Ministry to cooperate fully because he values the energy relationship with the United States and because it promises to benefit India significantly. He said his U.S. trip in January-February was very useful, in part, because it gave him many ideas for US-India oil and gas cooperation. One area he would like to pursue through the Energy Dialogue is exchanges on enhanced recovery techniques in which the United States has state-of-the-art technology.

#### Exploration Bidding

17. (C) The Ambassador congratulated Aiyar on the successful completion of 5th round of bidding under India's National Exploration and Licensing Policy (Ref A). There was unprecedented interest shown by foreign and domestic oil companies seeking exploration rights. Aiyar was clearly pleased, noting that his first priority when he assumed office was to find ways to maximize domestic reserves and output. He devoted a great deal of time traveling to different parts of the world to promote the exploration potential in India because he believes foreign direct investment and foreign participation are key to development of the upstream oil and gas sector in India.

18. (C) Aiyar expressed disappointment, however, in the lack of interest shown by American companies and noted that he had raised the issue in a forthcoming letter to Secretary Bodman (septel). He wondered whether the subject of promoting American interest in exploration in India could be made part of the oil and gas working group deliberations.

#### Saudi Relationship

19. (C) Noting that Aiyar was by far the most widely traveled and active Minister in the Indian Cabinet, the Ambassador asked for a read out of his recent travels. Aiyar responded that following his January and February visits to promote exploration interest in India, he had gone to Saudi Arabia to cement the oil and gas relationship. He observed that since Saudi Arabia supplies 26 percent of India's oil imports he believed it was important to stabilize and lock in supplies for the long term. Besides, he noted, he and Saudi Oil Minister Naimi had hit it off in earlier meetings and were able to establish a rapport, sharing jokes and interests.

110. (C) Aiyar said he was successful in consolidating the relationship and was able to move forward supply time frames and obtain some commitments. He was disappointed, however, that a proposed Saudi collaboration with the state-owned Hindustan Petroleum company did not materialize, although some private Saudi oil men have subsequently approached the GOI with joint investment ideas. Aiyar was especially impressed with his visit to the Dhahran petrochemical complex, which he described as an eye-opener in terms of the scale, technology and management.

#### ILSA Concerns

¶11. (C) When Aiyar turned to his Islamabad, Teheran and Baku visit earlier this month, the Ambassador noted that our concerns about enhancing Iran's ability to develop its petroleum resources are well known to Aiyar and the GOI. The Ambassador referred to our ILSA legislation and expressed hope that our concerns would be factored into any decisions that India makes concerning its energy relationship with Iran.

¶12. (C) The Ambassador urged Aiyar not to consider our concerns as hostility to India's quest for energy security. In fact, we keenly recognize the rapidly increasing energy needs of India and have, therefore, engaged in the Energy Dialogue to support our mutual energy security through cooperation in a range of areas, including oil and gas and civil nuclear. The Ambassador felt it was unfortunate that the media tends to focus too much on the Iran angle of US-India relations when this is only a small part of our broader relationship.

¶13. (C) The Ambassador drew attention to Secretary Rice's recent statement to a reporter that "... we are sharing our concerns in a constructive way ... not in a negative way," and that "we are engaged in an energy dialogue with the Indians so that we can ... talk about different forms of energy supply, because we fully understand that they need to find it." He added that regardless of what the media reports and whoever it quotes, our definitive views on India-Iran energy ties are summed up by the Secretary's statement. Aiyar was appreciative of the frank and measured U.S. approach with India on energy ties with Iran.

#### Islamabad Visit -----

¶14. (C) Aiyar said that the timing of the back-to-back Islamabad and Teheran visits was an accident as the Teheran visit had been scheduled a while back while the Islamabad visit kept getting postponed by the Pakistanis because of the schedules of Prime Minister Aziz and President Musharraf. Aiyar underscored the importance he believed the Pakistanis attached to his visit by explaining that he expected to meet only the Petroleum Minister so it was both flattering and alarming that the Pakistanis insisted on his meeting with Aziz and Musharraf. He met with Musharraf for an hour and with Aziz for 45 minutes. He was particularly impressed that Aziz gave him so much time on the day he was due to present the budget to Parliament. Aiyar said that Pakistani Foreign Ministry officials had told him that Musharraf is personally monitoring all deliberations regarding the pipeline. In his view, the atmospherics during the visit were very positive and the two sides achieved a great deal.

¶15. (C) Aiyar observed that there were skeptics in the Indian establishment who questioned Pakistan's need for gas and doubted its commitment to the Iran-Pakistan-India (IPI) pipeline. The Pakistanis, however, made a persuasive presentation to him showing that their need for imported gas in the next 20 years would exceed even India's requirements. Aiyar noted that Pakistan's energy mix is almost the exact converse of India's. While India depends on coal for 44 percent and gas for 7 percent of its energy needs, Pakistan relies predominantly on gas (50 percent) and only marginally on coal (6 percent). Pakistan has created an elaborate system of residential gas supply which it will need to feed from new sources. According to him, the Sui gas field is about to peak and will decline rapidly from 2006 through ¶2011. Pakistan will become a net importer of gas by 2010.

¶16. (U) According to Aiyar, Pakistan's import requirement would be 300 million cubic meters per day (mmcmd) by 2025 while India's would be 200 mmcmd. With a combined 500 mmcmd, the two countries must pursue all options at once, including but not limited to the IPI pipeline. Aiyar declared that he has no bias for any of the projects that bring gas to the subcontinent. There is more discussion about the IPI pipeline because it is further along than other options. The two countries have established a bilateral Joint Working Group (JWG) to discuss all aspects of the project. The JWG will meet between 3-6 times during 2005. Aiyar said that the timetable is being driven by Pakistan which wants to reach a decision by the end of 2005. The bilateral JWG would have to be followed by trilateral meetings with Iran.

¶17. (U) Aiyar claimed that BHP Billington had not shared its feasibility study on the pipeline with either Pakistan or India, and he admitted that he did not have credible data on the economics of the project. He thinks the project will cost about \$4-5 billion and the economics will depend on the price demanded by the Iranians. He believes, however, that the pipeline is viable with both reasonable returns for Iran and an affordable prices for India and Pakistan. In Aiyar's view, LNG offers an alternative to pipeline gas but LNG volumes cannot match the volumes that can be transported by pipeline, which lowers the per unit cost. Aiyar said he believes that the IPI pipeline is an "idea whose time has

come," but the idea is only now "crystallizing" and it requires a lot of work.

#### Other Options

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118. (C) Given their large gas requirements, India and Pakistan must think creatively about gas supplies, Aiyar observed. He said that there is no idea on oil and gas the GOI would turn its back on. He got the Pakistanis to help get him invited to the steering committee meeting of the Turkmenistan-Afghanistan-Pakistan (TAP) pipeline project. Pakistan has some doubts about the available Turkmenistan gas reserves, and these doubts were strengthened by the failure of the Government of Turkmenistan to provide audited reserve data for the Daulatabad field. Aiyar suggested that if Turkmen reserves are inadequate, gas reserves in Uzbekistan, Azerbaijan, Kazakhstan and even beyond could be fed into the TAP pipeline in Turkmenistan.

119. (C) Aiyar noted that Pakistan was also pursuing an offshore pipeline from Qatar, but he considered it doubtful that this project would mature because it needs Iranian approval as the proposed pipeline has to run in shallow water along the Iranian coast. In Baku, Aiyar proposed government-to-government oil supply arrangements for 50 million tons of crude. He also discussed reversing an existing Iran-Mediterranean oil pipeline to bring Caspian sea crude from Azerbaijan's Shah Daliz and ACG fields.

120. (C) Aiyar observed that there has been broad strategic reasoning behind his oil diplomacy during the last year. He wants to encourage opening up as many oil and gas supply sources and routes as possible -- even if India is not the direct beneficiary -- so that the consuming countries are not dependent on "Arab oil." The more alternative sources the world has the better off all energy deficient countries will be.

#### Teheran Visit

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121. (C) Aiyar told the Ambassador that the Iranians were skeptical of Pakistan's interest in the IPI pipeline, questioning why Pakistan has not talked to Iran in a meaningful way about the project. He added that some decision-makers in Iran were also suspicious that India and Pakistan were "ganging up" on Iran. Aiyar explained to the Iranians that gas in India is used primarily in the power and fertilizer industries, both of which have controlled output pricing. If output prices are controlled at reasonable rates then input prices for the gas have also to be reasonable or there won't be any buyers for it. The Iranians, however, kept talking about the opportunity cost of gas sold at the reasonable prices that Aiyar think will justify the pipeline. Aiyar said the Iranians are very tough negotiators. In one marathon 7 hour negotiating session, the Iranian used 7 different lead negotiators.

122. (C) Aiyar did not specifically discuss the recently reported LNG deal (ref A) nor did he raise the proposed participation of state-owned oil and gas companies in exploration and production activities in Iran.

#### Comment

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123. (C) Mani Shankar Aiyar once again impressed us with his ability to think strategically while maintaining a sure grasp of the details. He was comfortable talking about the need to reduce the world's dependence on "Arab oil" as well as the small details of projects that could make this possible.

124. (C) It is not clear to us whether it was intentional or not, but Aiyar's read-out of his Islamabad visit conveyed the distinct impression that he feels Pakistan needed the Iran-Pakistan-India pipeline even more than India. He underscored the high level interest in Pakistan in moving forward soon on this project, in large part because Pakistan faces a severe gas supply crisis in the next two decades. Aiyar's aim could be to plant the idea that Pakistan is the real driver behind this project while India is merely tagging along so we ought to discuss our objections primarily with Pakistan.

125. (C) India is currently engaged in a broad, multi-faceted effort to secure its energy future. The leadership understands that the country's ability to sustain its growth rates and achieve its ambition of becoming a major global power can be thwarted if it fails to meet its energy requirements. The Iran-Pakistan-India pipeline is only one piece of a much bigger quest. There are many other energy initiatives and proposals that the GOI is working on. It would not be appropriate, therefore, to view the Indian drive for energy supplies solely through the prism of the Iran-Pakistan-India pipeline.

126. (C) Similarly, we have a broad multi-dimensional relationship with India, which touches upon almost every form of human endeavor from military and strategic to cooperation in HIV/Aids prevention and in the social sectors. There is a propensity in the media and occasionally among officials to dramatize the Iran-Pakistan-India pipeline and portray it as central to our relationship with India. Such media coverage conveys the impression that a confrontation between the United States and India over the pipeline is inevitable and imminent. Such portrayals are dangerous and damaging. We need to soften the tone of public pronouncements by lower level USG officials and veer away from the confrontational pitch often assumed in these declarations of policy. Secretary Rice's June 16 statement on India-Iran energy ties

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conveys perfectly the substance and tone of what we should be saying. This needs to be our consistent message. It is not helpful when officials make pronouncements that help move the pipeline and Iran back to center stage in public discourse on the US-India relationship, especially since even if the pipeline were to be economically viable, we are years away from the point at which a confrontation over ILSA would emerge.

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